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UNCL

SOVIET OBJECTIVES IN TRADE

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MEMORANDUM

Soviet Objectives in Trade  
with the United States

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Through trade with the West, the USSR seeks equipment and know-how that will raise the level of Soviet industrial technology and increase production more rapidly than is possible with domestic resources. The United States -- as the world's largest and most advanced industrial power -- is the single greatest potential source for this equipment and technology, although US sales of \$780 million in 1974 were exceeded by West German and French sales.

Ability to Acquire Equipment

Soviet ability to acquire needed equipment and know-how is partly determined by the amount of hard currency that the USSR can acquire through exports and sales of gold. Higher prices for Soviet oil and other raw materials have caused a turnaround in the Soviet balance of trade with hard currency areas, from a deficit of \$1.7 billion in 1973, to a surplus of about \$1 billion in 1974. Gold sales may have added over \$500 million to hard currency receipts in 1974.

In addition, Moscow has sought and obtained Western credits and, when possible, long-term Western guarantees to purchase part of the commodities produced with the imported equipment.

The United States, with its extensive capital market and huge domestic demand for many fuels and raw materials, is an especially attractive source of credits and cooperative deals.

#### US Equipment and Technology

In trade with the United States, the USSR has especially sought state-of-the-art technology and technologically advanced end-items unavailable elsewhere. Moscow, for example, has shown great interest in equipment and technology to produce trucks and wide-bodied aircraft; large computers, their software, and equipment to produce them; air traffic control systems; and oilfield equipment. The USSR has also tried to involve the US in large-scale development projects -- Yakutsk and North Star natural gas, chemicals, offshore oil, and timber. Eximbank funds have provided financial support for major deals such as equipment for the Kama Truck Plant and the Occidental chemical complex. Even when US equipment and know-how were not superior, the availability of low-interest Eximbank credits kept US firms in the bidding.

#### Impact of US Equipment and Technology

The Soviets stand to gain technologically from expanded commercial relations with the US more than the quantitative data on trade volume would suggest, but this should not be overemphasized. Imports of plant and equipment from the US, even under the most optimistic assumptions, will constitute only a fraction of the total value of equipment invested in Soviet

industry and these will be operated in the Soviet institutional milieu with all its endemic inhibitions to the rapid diffusion and utilization of even domestically generated technology. Perhaps the most that can be said is that US technology will raise technological levels in certain key sectors of the Soviet economy, but the barriers to rapid assimilation will ensure that the overall diffusion of foreign technology in the USSR will be slow and uneven.

Use for Military Purposes

Many of the advanced technologies and production processes and much of the equipment that the Soviets hope to obtain in the United States can be used for military purposes as well. Civilian air traffic control systems, for example, could help Soviet air defense development, particularly if US firms sold production know-how as well as hardware. Similarly, purchases of production equipment and technologies in the fields of advanced computers, minicomputers, semiconductors, wide-bodied aircraft, and advanced aircraft engines could be of direct use in military R&D and production. The problem is that practically all sophisticated technology -- whether in the area of automotive technology, electronics, electronic instruments, metallurgy or in other areas -- have some potential application in military production. The Soviets, however, design their military system so as not to be dependent on foreign imports of technology and equipment.

Competing Sources

The USSR realizes that (a) West European and Japanese firms can meet most Soviet requirements for advanced technology and high-technology equipment, and (b) many US firms have foreign subsidiaries and affiliates capable of providing most of the processes and products developed by the parent firm. Aside from the US technological superiorities noted above, however, US firms sometimes enjoy other advantages. They may be better (or uniquely) qualified to fulfill Soviet needs for fully integrated systems such as a large hardware-software computer package, or for processes requiring across-the-board production equipment and know-how, or for rapid delivery and installation of large amounts of machinery.

Except in the case of West Germany, the USSR is able to finance its European and Japanese purchases with low-interest credits. The UK and France in recent months have extended a total of over \$5 billion in long-term credits at 7.2%-7.55% interest to cover Soviet purchases during 1975-79. Japan extended over \$1 billion in low-interest credit in 1974 alone. Italy has recently granted the USSR a \$600 million credit and is considering Soviet requests for an additional \$1 billion. US sales must be financed at higher interest -- 1%-2% over prime rates in the US or Eurodollar money markets. US banking regulations, moreover, limit loans to any single borrower to 10% of a bank's capital and surplus and may, over time, put a ceiling on the amount of credit that could be made available to the USSR.

Soviet officials have professed confidence that US-Soviet trade can continue to develop despite the absence of MFN and Eximbank financing. At the same time, Moscow may be giving substance to warnings that it can and will take its business elsewhere. A major US paper company, for example, has indicated that the production of \$800 million in equipment for the Soviet pulp paper complex now being negotiated would have to be shifted abroad to take advantage of better financing. Similarly, Armand Hammer has announced that better financing may allow French instead of US firms to receive a contract to produce \$200 million worth of pipe for an ammonia complex pipeline, although US firms should still obtain \$100 million in contracts for pipeline construction know-how and management. The USSR still desires US technologies and equipment, and Moscow's improved balance of payments has and will allow it to pay cash for many US purchases. The lack of Eximbank financing, however, will diminish the competitive position of many US firms and will have a particularly adverse impact on major development deals where Eximbank backing and low interest are essential.

#### Economic Relations and Detente

Economic relations represent a major element in US-Soviet detente and they cannot be separated from the political context. A high Soviet official recently claimed that the passage of the Trade Act has set back US-Soviet relations in general. At

the same time, Moscow has made it clear that it wants to preserve and extend the gains of its policy of improved relations with the United States and maintain momentum in arms control, CSCE, and in other areas. This desire for progress in detente, however, has not prevented Moscow from making the point that it will go elsewhere to help fulfill its economic needs.